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TABELL'S MARKET LETTER

September 23, 1960

The triple bottom formed by the Dow-Jones Industrial average in March, May and July at 597 was penetrated last week and decisively so. The Industrials were off fifteen points on Monday and the decline continued to a Tuesday intra-day low of 581.91. The list turned around midway through the Tuesday session and reached a high of 597.85 on Wednesday. By Thursday and Friday, most of the gains had been given up with volume extremely light on the latter two days due to the Jewish holidays.

The most commonly-asked question this week, of course, was "What can be expected now that the market has penetrated the 600 level?" There is, on the part of some investors, an unfortunate tendency to regard the breaking of the 600 level with a mythical significance akin to the crossing of the Rubicon. That the decline to new lows is important from a technical point of view is conceded. This importance, however, can be somewhat exaggerated.

It will be recalled that the downside count indicated by the technical pattern at the August 1959 and January 1960 tops had three downside implications. The first of these was around 600, which was finally penetrated this week. The other two were 578 and 550. At this week's intra-day low, the 578 level was almost reached. It now appears that the broad 550-600 level is a buying area in which the averages will form a new base for a later advance.

This does not rule out further weakness as a possibility. Indeed, the mid-week rally was unimpressive enough to make one suspect that the market has not yet found a strong support level. Therefore, it is quite possible that the lower limit of the 550-600 range will be reached, and even that level may be penetrated for a short period of time. This would imply the market's becoming oversold from a short term technical point of view. Such an event, of course, would have healthy implications for any subsequent rally and, significantly, it is an occurrence that did not take place at the March, May or June lows.

As this letter has pointed out, breadth of the market has, until recently, been improving. Obviously, this week's action will cause some deterioration, although on a long term basis the indices will remain potentially favorable. It must be remembered that breadth of the market is a leading indicator and usually begins to turn long before the market reaches tops or bottoms. For example, breadth action began deteriorating in March, 1959, despite the fact that the averages made a new high in August, 1959 and equalled it in January, 1960. Prior to the 1958-59 advance, breadth began improving in December 1957, despite the fact that the market held around its lows and did not start to advance until mid-April of 1958. It is, therefore, unfair to say that the positive breadth action has been invalidated by this week's decline to new low levels.

If the thesis that a buying area exists around current levels is correct, the investor should be seeking stocks with a minimum of downside risk and attractive upside potential as vehicles for new buying. Many such stocks are, of course, contained in our recommended list and there are a number of other stocks and groups which appear attractive. The outlook for Aircrafts remains strongly bullish with both Martin (49 1/2) and North American Aviation (40 1/2) close to support. Airlines may have to do more work around current levels, but appear close to their lows with American Airlines (19 1/8), attractive. Most Building Materials stocks are reaching their downside potentials and Bestwall Gypsum (36 1/2) and Johns Manville (52 1/2) appear interesting. Foods continue to show above average action and Food Chains appear to be slowly basing out. The technical position on the Meat Packing stocks appears to be improving also. The Office Equipment group is mixed, but International Business Machines (511) appears attractive as does Underwood Corp. (46 3/8) on a speculative basis. The Natural Gas stocks also appear attractive from a technical point of view. Tobaccos continue in an uptrend and Philip Morris (71) and Reynolds (80) seem suitable for further moderate price appreciation.

EDMUND W. TABELL
WALSTON & CO. INC.

I am leaving today to enter the hospital for an abdominal operation and will probably be there and recuperating at home for the next three to four weeks. This letter will be written by my son, Anthony, in the interim. EWT

Dow Jones Rails 128.25